

MONTREAL EXCHANGE - REGULATORY DIVISION

# Newsletter

The Montreal Exchange Inc. (the “Bourse”) is recognized by the Autorité des marchés financiers (the “Autorité”) as an exchange and a self-regulatory organization. The Regulatory Division (the “Division”) is a separate business unit of the Bourse responsible for carrying out its regulatory functions and operations. The Division consists of four services: Core Regulatory Functions, Strategy and Regulatory Outreach, Enforcement and Market Regulation, and Systems and Data.

The Division publishes a bi-annual newsletter to share information of a general nature on regulatory activities, and takes advantage of this opportunity to share observed best practices in regulatory compliance.

This newsletter covers the period from January 1 to June 30, 2021.

**Enjoy!**

## Topics

**Events Organized by the Division**

**The Division’s Initiatives**

**Profile of Approved Participants**

### **Regulatory Activities**

- Examinations
- Market Analysis
- Investigations
- Enforcement
- Imposed Late Filing Fees

**Observed Best Practice**

**Publications of the Division**

## Events Organized by the Division

- The Division's Regulatory User Group held virtual meetings on February 18 and May 27, 2021.
- The next two User Group meetings are scheduled for October 21 and December 2, 2021.<sup>1</sup>

*\*Given the pandemic, in the first half of 2021, there were no in-person events organized by the Division.*

## The Division's Initiatives

### The Regulatory Outreach Program

In 2020, the Division conceptualized what a Regulatory Outreach Program would look like and what it should achieve. Overall, the goal in launching the program was to have a dedicated resource to work proactively with stakeholders, and ultimately, all market participants. To support this goal, there were several objectives:

- Enhance overall regulatory awareness;
- Improve access to information;
- Build a stronger community of collaboration and transparency;
- Improve the overall participant experience.

Some of the measures taken to achieve the Division's goal in the first half of 2021 were to draft and publish compliance priorities, FAQs and guidelines. Immediate efforts were also made to update the Division's website to facilitate access to information. The program is designed to clarify regulatory requirements for external stakeholders but also provide educational material for internal parties and to encourage interactive discussions and presentations between them.

### Participant Portal

The Participant Portal (the "Portal") is a secure and user-friendly single point of contact for Approved Participants and Foreign Approved Participants (collectively, "Participants"). It facilitates access to regulatory documents as well as the submission of applications, reports and notices to the Division. The paper and online forms relating to the processes listed below are no longer available on the Division's website. The Division will only process requests sent through the Portal.

As of now, the Portal has the following functionalities:

- Administering access to the Portal;
- The Approved Person module which includes the application forms, transfer forms, uniform termination notice (UTN) form, an alert listing the MX-IDs to be deleted following a UTN submission, an export feature, and access to the training courses and exams to trade on the Bourse;
- The MX-ID module for requesting new MX-IDs, transfer requests, cancelling existing MX-IDs and an export feature;

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<sup>1</sup> Members for the 2021/2022 term were announced in June 2021 (circular 119-21).

- Modules allowing the filing of notices of non-compliance (Gatekeeper) and submitting corrections to the identification of orders (Order Marker Corrections);
- The secure transfer of documents (inbound & outbound) between the Division and Participants;
- The DEA Client module which includes a modifiable list of the Participant's clients with their unique identifiers, including a comprehensive export function;
- The Designated Representative and Signatory module which allows for the nomination, update, and termination of Designated Representatives and signatories including notifications and automatic reminders;
- The Scorecard module which allows the Division to share its observations with Participants.

Portal administrators can now delete requests opened in error. They also have access to advanced reporting features for MX-ID modules, Approved Persons and clients with Direct Electronic Access (DEA Clients), as well as access to the list of all Portal administrators by consulting their contact list.

For all modules, training capsules are available on the [Participant Portal](#).

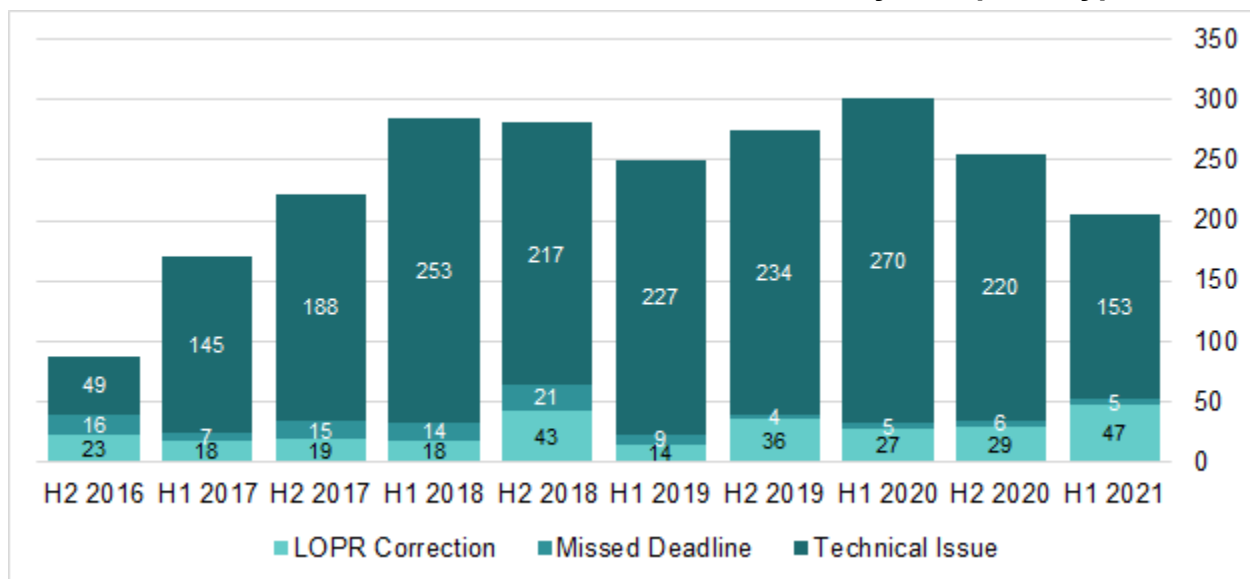
## Participant Scorecard

On March 2, 2021, the Division made the Participant Scorecard (the “Scorecard”) available via the Portal. The Scorecard is one way for the Division to share its observations with Participants and help them track their level of compliance with certain regulatory requirements of the Bourse. The Scorecard is published bi-annually.

The Division plans to introduce [LOPR Notification Portal](#) submissions to the next Scorecard. The LOPR Notification Portal is to be used only in exceptional circumstances (see circular [104-20](#)). In the first half of 2021, the Division noted a total of 205 submissions.

Figure 1

### Total Number of LOPR Notification Portal Submissions, by Exception Type



# COVID-19 Pandemic: Measures Taken by the Division

Following the outbreak of the pandemic (COVID-19) in the first quarter of 2020, the Division assessed the situation and published its first circular ([041-20](#)) on March 11, 2020. The circular highlighted the Division’s expectation regarding Participants’ business continuity plans and addressed concerns of possible restrictions associated with invoking these plans due to COVID-19. The Division also published additional guidance relating to certain regulatory requirements (circular [043-20](#)) and granting additional reporting delays (circular [049-20](#)).

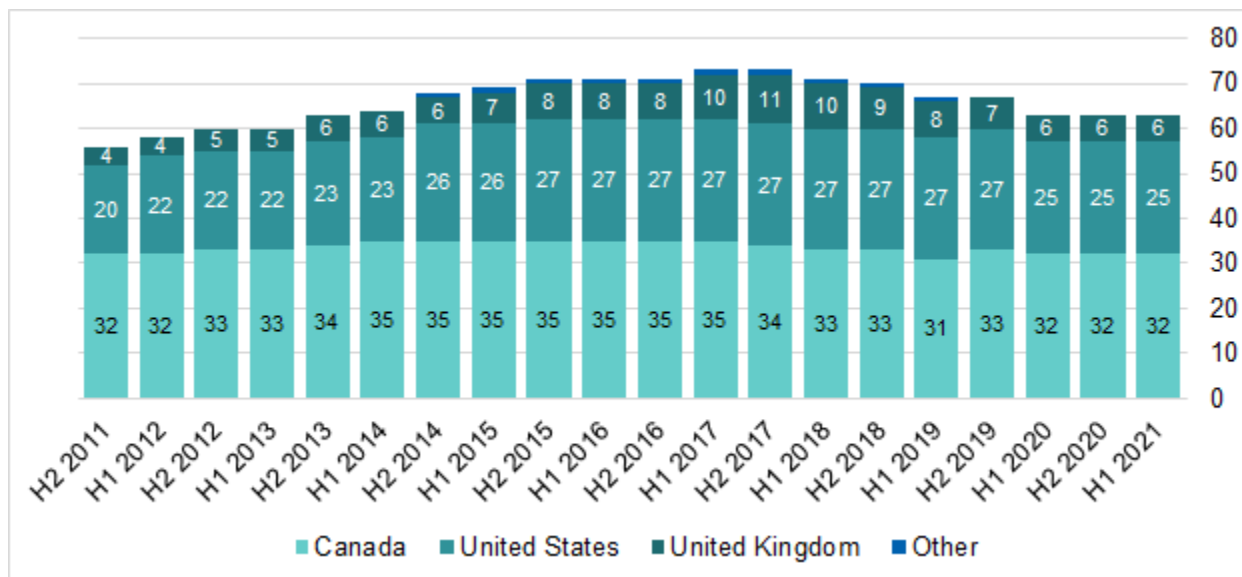
The alternative measures described in circular [043-20](#) and the additional 30-minute delay granted in circular [049-20](#) when reporting Large Open Position Reports (“LOPR”) and Exchange of Futures for Related Products (“EFRP”) Transactions have been subsequently extended. These measures are in place until September 30, 2021 (circular [104-21](#)).

## Profile of Approved Participants

As at June 30, 2021, following one admission and one resignation during the first half of 2021, the Bourse had a total of 63 Participants. The following figure illustrates the number of Participants, by jurisdiction, since June 30, 2001.

Figure 2

### Total Number of Participants, by Jurisdiction



# Regulatory Activities

## Examinations

The Examinations service conducts examinations of the derivatives trading of the Participants of the Bourse. The purpose of these examinations is to assess the compliance of Participants of the Bourse with its Rules.

From January 1 to June 30, 2021, the Division performed 12 examinations leading to observations. Recurring observations include:

- Policies and procedures not updated with new rulebook article references (see [Article 3.100](#));
- Large Open Position Reporting (LOPR) discrepancies (see [Article 6.500](#));
- Inadequate account information in Large Open Position Reporting (LOPR) (see [Article 6.500](#));
- Inadequate annual evaluation of clients with direct electronic access (see [Article 3.5](#));
- Failing to register employees having access to Electronic Trading system (see [Article 3.400](#)); and
- Failing to send Notice of Termination of Employment in prescribed time (see [Article 3.103](#)).

**During the period from January 1 to June 30, 2021, the Division conducted a total of 12 examinations leading to findings.**

## Market Analysis

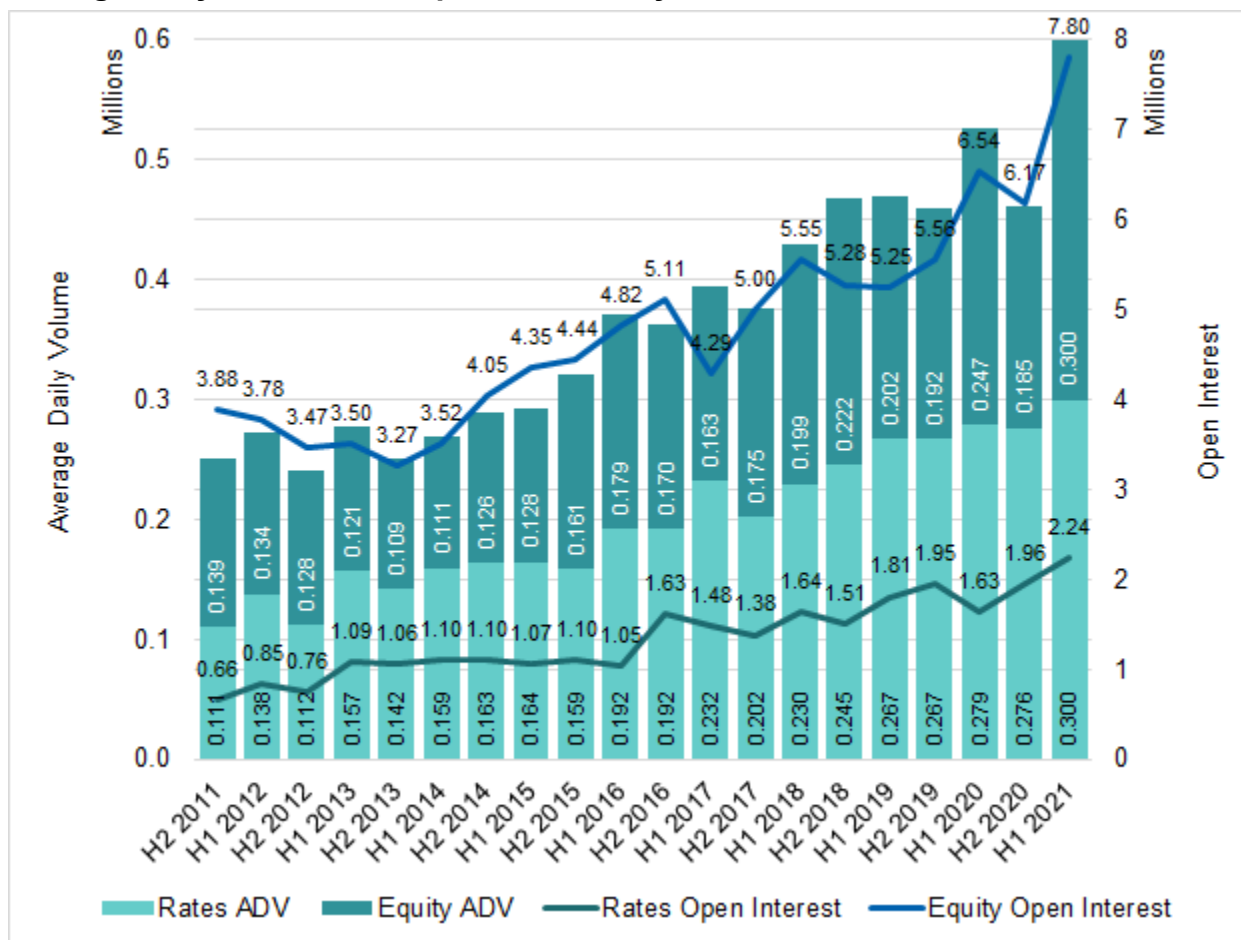
Among the core regulatory functions, the Market Analysts perform market surveillance to detect potential breaches of regulations and monitor insider trading activities on the options market of the Bourse. The Market Analysis unit also reviews trading on the Bourse to determine whether Participants are complying with trading rules and principles, and whether these trades involve abusive or manipulative trading practices.

In the first half of 2021, an average daily volume of 599 000 contracts was observed compared to 461 000 contracts for the second half of 2020, an increase of 29.9%. In the first half of 2021, the Division monitored 10.9 million trades executed on the Bourse.

The Market Analysts are also responsible for conducting preliminary reviews of all complaints received from various sources. The Division received eight complaints in the period from January 1 to June 30, 2021, mostly from Participants and the Market Operations Department.

Figure 3

### Average Daily Volume and Open Interest, by Asset Class



In the first half of 2021, the Division received a total of eight complaints.

## Investigations

The Division may open an investigation when a potential regulatory violation has been detected during an examination or following a market analysis.

From January 1 to June 30, 2021, the Division opened one investigation concerning supervision of Direct Electronic Access clients that may have engaged in manipulative or deceptive trading activities, which may have contravened Articles 7.5, 3.5, and 3.100 of the Rules of the Bourse applicable at the time. During the same period, the Division also reopened one investigation regarding potential market manipulation.

In the first half of 2021, the Division opened and reopened a total of two investigations. The Division did not close any investigations.

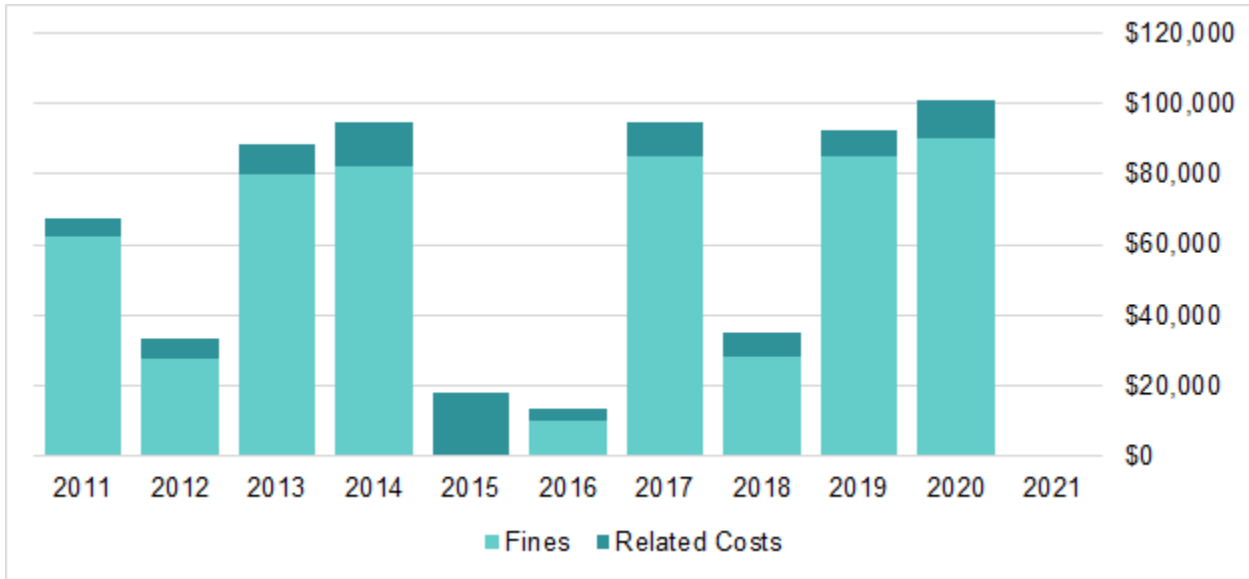
# Enforcement

Disciplinary proceedings may be initiated when, following an investigation, the Division concludes that there has been an offence under the Rules of the Bourse or to regulation (for example, [Regulation 23-103 respecting Electronic Trading and Direct Electronic Access to Marketplaces](#)).

## Disciplinary Decisions

For the period from January 1 to June 30, 2021, although a hearing took place on June 18, 2021<sup>2</sup>, no disciplinary decisions were published.

Figure 4  
**Fines and Related Costs Imposed as Part of Disciplinary Matters<sup>3</sup>**



## Fines for Minor Violations

In the first half of 2021, the Division did not impose fines for minor violations.

**No disciplinary decisions were published in the first half of 2021.**

## Imposed Late Filing Fees

During the first half of 2021, the Division imposed late filing fees of \$2,750 for late Large Open Position Reports (“LOPR”), \$4,700 for Uniform Termination Notices submitted more than ten days after the terminate date (“UTN”), \$250 for late responses to information or documentation requested by the Division (“RFI”), and \$200 for Exchange of Futures for Related Product transactions not reported within

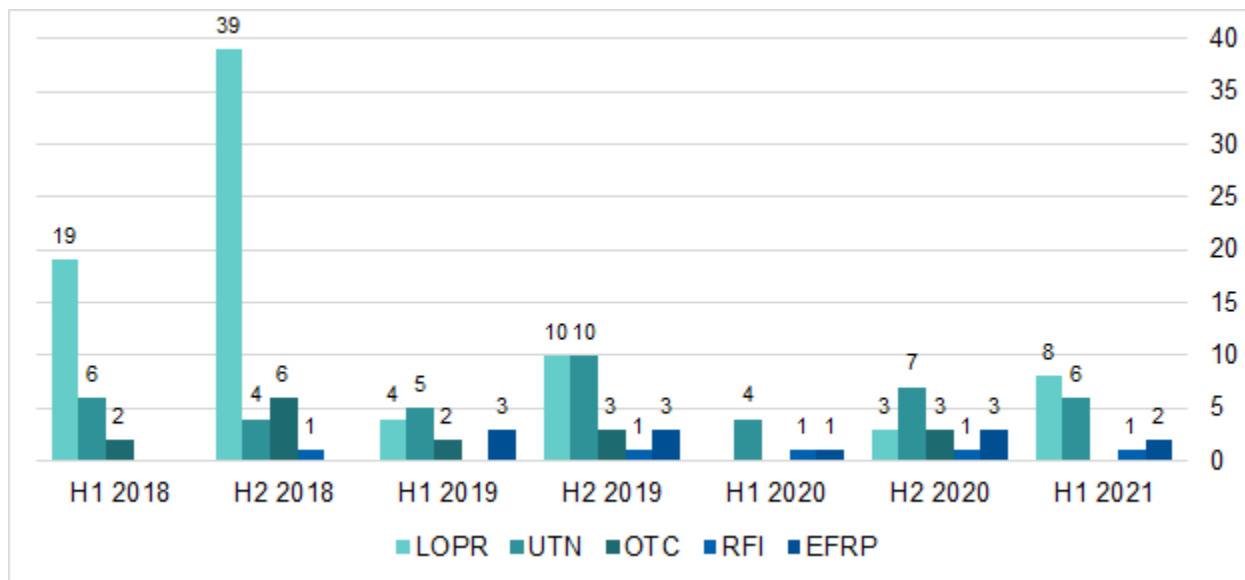
<sup>2</sup> [Circular 071-21](#)

<sup>3</sup> All fines and related costs imposed in 2021 will be reported at the end of 2021.

the prescribed time limit (“EFRP”). No late filings were observed for bi-monthly reports on over-the-counter options (“OTC”). Figure 5 illustrates the number of late filings.

Figure 5

### Number of Late Filings, by Type



## Observed Best Practice

### “EFRP” Transaction Monitoring

The Rules of the Bourse require each party to an Exchange of Futures for Related Product (“EFRP”) transaction to maintain full and complete records as well as documentary evidence relating to the execution of the EFRP. The adherence to the audit requirements, as well as ensuring that the transactions are valid and records are complete, are key tools that help the Division ensure a fair and orderly marketplace. The Division has offered guidance and assistance to Participants in ensuring that these requirements are consistently met and maintained. The Division has received very encouraging responses and collaborative efforts to this effect.

The Division has observed the following best practices concerning EFRP transaction monitoring as well as the maintenance and adherence of a full and complete audit trail:

- The process of ensuring a complete audit trail begins immediately following the approval of the EFRP transaction by the Market Operations Department.
- Quarterly reviews are performed to ensure completeness of the EFRP records of those transactions executed during that period.
- A checklist format exists to ensure that all audit trail items are complete.
- The exercise to ensure that the EFRP transaction is a legitimate arms-length transaction is performed and duly verified.
- Traders provide full trade communication, including emails, chats and telephone calls, to compliance personnel. This allows for the reporting time delay to be established and respected as well as ensures that they are veritable in nature.
- A follow-up with the involved parties is performed when audit trail items are inadequate.



- A notice of non-compliance is filed when time delays are not respected.
- Trade ticket verifications are performed to ensure all necessary information and trade details are included.

## Publications of the Division

- **Approved Participant admissions and resignations**
  - [Circular 010-21](#): Resignation of an Approved Participant - INTL FCStone Financial (Canada) Inc.
  - [Circular 070-21](#): Admission of an Approved Participant - Sig North Trading, ULC
- **Position Limits** (circulars [006-21](#), [026-21](#), [035-21](#), [043-21](#), [045-21](#), [046-21](#), [061-21](#), [084-21](#), [096-21](#), [105-21](#), [112-21](#), [113-21](#), and [114-21](#))
- **LOPR**
  - [Circular 003-21](#): Reports of Accumulated Positions on Derivative Instruments (LOPR) - Reminder Concerning LOPR Reportable Dates
- **Amendments to the Rules and Policies of the Bourse**
  - [Circular 021-21](#): Self-certification - Amendments to the Rules of Bourse de Montréal Inc. regarding Position Limits
  - [Circular 027-21](#): Amendment to the List of Fees of Bourse de Montréal Inc. (effective March 1st, 2021)
  - [Circular 034-21](#): Self-certification - Special Committee of the Regulatory Division - Tenure Limit - Amendments to Article 2.202 of the Rules of Bourse de Montréal Inc.
  - [Circular 040-21](#): Self-certification - Validity period for the training requirements for Approved Persons
  - [Circular 083-21](#): Amendments to the List of Fees of Bourse de Montréal Inc. (effective June 1st, 2021)
  - [Circular 094-21](#): Request for comments - Amendments to Part 4 of the Rules of Bourse de Montréal Inc. - Conduct of the regulatory functions of the Bourse
- **Division's Regulatory User Group**
  - [Circular 092-21](#): Call for Members - Regulatory User Group
  - [Circular 119-21](#): Regulatory User Group - Members List
- **Enforcement**
  - [Circular 071-21](#): Hearing before the Disciplinary Committee of Bourse de Montréal Inc. - BNP Paribas Securities Corp.
- **Alternative Measures and Reporting Delays**
  - [Circular 007-21](#): Extension - Alternative Measures and Reporting Delays - COVID-19
  - [Circular 104-21](#): Extension Until September 30, 2021 - Alternative Measures and Reporting Delays - COVID-19
- **FAQs and Guidelines**
  - [Circular 042-21](#): Frequently Asked Questions - Sponsored Access (Article 3.5)
  - [Circular 051-21](#): Frequently Asked Questions - Exchange of Futures for Related Products - Article 6.208
  - [Circular 069-21](#): Off-Exchange Transfers - Publication of Guidelines
- **Other**
  - [Circular 015-21](#): 2021 Compliance Priorities and Regulatory Division Initiatives
  - [Circular 020-21](#): Publication of the Newsletter From the Regulatory Division
  - [Circular 033-21](#): Representation at Disciplinary Committee (*published by the Bourse*)

- [Circular 041-21](#): The Regulatory Division Participant Scorecard
- [Circular 048-21](#): Access to the Margin Rate and Tracking Error Files - Access to the Position Limit Files
- [Circular 068-21](#): Name Change of an Approved Participant - Mackie Research Capital Corporation
- [Circular 075-21](#): Amendments to the Rules of Bourse de Montréal Inc. Regarding Position Limits – Reminder - Amendments to the Position Limit File Publications
- [Circular 097-21](#): Final Amendments to the Bourse De Montréal Inc. Position Limit File Publications
- [Circular 102-21](#): Call for applications Disciplinary Committee of Bourse de Montreal Inc. (*published by the Bourse*)
- [Circular 121-21](#): Consultation Paper: Introduction of a New Client Identifier and Other Markers at Order Entry
- [Circular 122-21](#): Call for Members Client Identifier Working Group

## For more information:

REGULATORY DIVISION

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